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ABSTRACT

This paper finds that the ready availability of illegal-immigrant workers from Mexico in major industries in the Southwest region of the United States is having far-reaching and often unanticipated consequences for patterns of investment, employment, and business competition. It reviews the displacement of U.S. workers by illegal immigrants in agriculture, food processing, services, and construction, and analyzes the processes of ethnic recruitment networks and subcontracting that lead ultimately to the exclusion of U.S. English-speaking citizens and legal residents from many work places. The conclusion is that U.S. business acquiescence in illegal immigration has become a selective labor subsidy that has contributed in the last two decades to distorted investment decisions, slower growth, and the proliferation of low-skill, low-productivity jobs in the U.S. labor market. (DJC)

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- The options for enforcing immigration laws effectively and humanely in ways consistent with democratic values.
- The improvement of data and analyses on migration as a contribution to the national debate and decisionmaking.

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Illegal Immigration and the Colonization of the American Labor Market

by

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January 1986

CIS Paper 1

Somebody, somewhere, has to do hard physical labor because it is here to be done. . . we must either bring somebody in here to do our hard work or we must go elsewhere for our foodstuffs and clothing.

Ralph Taylor (1928)¹

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OVERVIEW

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In this report, Dr. Martin, a seasoned observer and analyst of the American labor market, finds that the ready availability of illegal-alien workers in major industries and geographical regions is having far reaching and often unanticipated consequences for patterns of investment, employment and business competition in the United States. He documents the displacement of American workers by illegal immigrants in agriculture, food processing, services and construction, analyzing the processes of network recruiting and subcontracting that lead ultimately to the exclusion of American citizens and legal residents from many work places. Dr. Martin concludes that our acquiescence in illegal immigration has become a selective labor subsidy that has contributed in the last two decades to distorted investment decisions, slower growth, and the proliferation of low-skill, low-productivity jobs in the American labor market.

6 The American Labor Market

Twenty years ago the United States enacted an ambitious legislative program to get America moving. The 1964 tax cut and other economic policies spurred economic growth, while Congress was enacting a Civil Rights Act to end discrimination and President Johnson was launching the War on Poverty.

There were also important changes in immigration policy: the bracero program that had brought up to 450,000 temporary Mexican farmworkers annually to southwestern agriculture over 22 years was ending; and the 1965 amendments to the Immigration and Nationality Act abolished national origins quotas and replaced them with a system of uniform national numerical ceilings that favored the admission of relatives of U.S. residents.

The U.S. economy was robust when these policies were adopted. In 1965, the unemployment rate was 4.5 percent, the interest rate on treasury bills was 4 percent, prices were rising 2 to 3 percent annually, and the federal budget had a small surplus.² In 1972 dollars, America's 1965 per capita GNP was \$4,800. Exports exceeded imports by \$9 billion.

Two decades later, most of these economic indicators have changed in the wrong direction. Unemployment in the 1980s has ranged from 7 to 10 percent, treasury bill interest rates have fluctuated between 7 and 14 percent, consumer prices have been rising from 4 to 10 percent annually, and the federal budget is mired in \$200 billion deficits. The balance-of-trade has shifted into an annual deficit of \$145 billion, with few prospects of a quick turnaround. However, not all the economic news is bad: In the same 1972 dollars, GNP per capita has risen 46 percent to \$7,012 and the economy has created 35 million new jobs.

The U.S. economy became much more sensitive to international events over the past two decades. In 1965, the United States exported capital

as multinationals invested abroad, the value of imports was only 2 percent of GNP, and the United States accepted about one-third of the world's immigrants and refugees. By 1985, the United States had been transformed into a major importer of goods, people, and foreign capital. Imports equal 9 percent of GNP, and the United States accepts over half of the world's legal immigrants and refugees.

There are many explanations for today's economic ills, including overly ambitious or ineffective government efforts to intervene in the economy, changing attitudes toward work, and the economy's sensitivity to international energy and food price shocks. No one knows exactly how the economy would have developed if government had not attempted to do so much, if women and teenagers had not entered the work force in record numbers, if American managers had been more concerned about long-run productivity, and if OPEC and the fluctuating dollar were only theories. However, we can make estimates on how much lower unemployment might be today if women, teenagers and illegal aliens had not crowded into the labor market in the 1970s, or how much lower inflation would be if energy prices had only doubled.

We can also estimate the effects of more or fewer illegal immigrant workers on the American labor market and economy. If we know how many illegal immigrants arrived to work in the United States and how the labor market and economy changed to accommodate and absorb them, then we can ask what would have happened with more or fewer immigrants. But before estimating the effects of illegal immigrants, we will review the major labor market and immigration trends in the 1960s and 1970s.

Labor Market Trends

The U.S. economy emerged in the 1970s and 1980s as a premier job-creating machine among industrial nations. All societies depend on their working aged populations to support the very young and the elderly. The

8 number of workers and their incomes largely determine how well families and societies support nonworking dependents. Since 1965, the most significant labor force change is the rising proportion of women who work — women jumped from one-third to almost half of a growing work force. If more women work and wages do not fall, average incomes rise because the total national income gets distributed across fewer nonworking persons.

In 1965, almost 66 percent of the 194 million people in the United States were 16 or older and thus eligible to be counted in the labor force.³ Almost 59 percent of the 128 million eligible people actually were employed or looking for work, including 81 percent of adult men and 38 percent of the adult women. Blacks, the only minority group for whom separate statistics were collected, were 11 percent of the 1965 work force.

By early 1985 over 75 percent of the 237 million U.S. residents were in age brackets eligible for work force participation, and 65 percent of the 179 million eligible workers were employed or looking for work. The biggest change was the percentage of women who decided to work; by 1985, almost 55 percent of all adult women were in the work force, compared to 78 percent of adult men. Blacks were 10.5 percent of the work force, and Hispanics were over 6 percent.

The number of people employed rose by 36 million, from 73 million in 1965 to 109 million in 1985. Over the past two decades, the number of jobs has increased by an average 1.8 million annually.

A dynamic economy constantly creates and destroys jobs. In 1965, almost 45 percent of the work force had white-collar professional, managerial, or sales and clerical jobs; 37 percent had blue-collar craft, operative, or laborer jobs; almost 13 percent had service jobs; and 7 percent were farmers or farm managers. By 1985, almost 56 percent of the work force had white-collar jobs; only 28 percent were blue-collar workers; 14 percent service workers; and less than 3 percent were farmers. In less than two decades, the number of blue-collar workers rose only modestly

**The vast changes in character of
the labor force cannot be separated
from the changes in immigration
flows over the past 20 years.**

in a growing economy and the number of farmers and farmworkers decreased.

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The structure of the American economy has also changed. The United States became a service economy in 1950, and today broadly defined services generate two thirds of GNP and employ 70 percent of the work force. The major service industries include wholesale and retail trade, the variety of services that range from health services and business and legal service firms to temporary security guards, and government. Many of these service jobs offer low wages — many of the 5.3 million workers employed in eating, drinking, and lodging establishments earn only the minimum wage occasionally augmented by tips.

These vast changes in the character of the labor force cannot be separated from the changes in immigration flows over the past 20 years. In the mid-1960s, there were few news stories about illegal immigration. Disputes between farmers and the Department of Labor over the continued need for Mexican braceros were seen as local issues only. When Cesar Chavez won his first contracts for California farmworkers in 1965, most Americans were only becoming aware that decades of immigration had made the southwestern farm work force Hispanic.

In 1965, the United States admitted 297,000 legal immigrants and the 1,800 Border Patrol agents caught 110,000 deportable aliens, 50 percent Mexicans. In 1985, the United States admitted 562,000 immigrants and 70,000 refugees. The Border Patrol, now up to 3,500, located 1.3 million deportable aliens, over 90 percent Mexican.

The outstanding labor market story of the 1960s and 1970s is the creation of new jobs. No European country created so many jobs so fast. The American job miracle is often credited to the "flexibility" of American businesses and workers. The relative ease of starting a new business in the United States is due in part to the ready availability of workers at prevailing wages to work in newly opened hotels, restaurants, and other

Additional people can spur growth, but they are not essential for it. . . . modern industrial economies can experience rising per capita incomes without population growth or immigration by providing more and better capital for each person employed and by pushing back technological frontiers.

- 10** businesses. Some of the flexibility entrepreneurs have in experimenting with risky labor-intensive business ventures that often fail is due to the availability of low wage immigrant workers.

Economic Growth

Americans understandably want the U.S. economy to grow rapidly, because a rising GNP translates into higher incomes. For the past 100 years (1889-1983), the real GNP per capita rose at an average rate of 1.8 percent annually. Economic growth slowed in the 1970s; from 1973 to 1983, real GNP per capita rose only half as fast.

Economists believe that in a stable society the main sources of growth are more labor, more capital, and technical progress. The important policy question is which of these three factors is the most important source of growth at a given time. Technical progress is most often seen as the most important source of growth in modern economies, contributing 50 to 80 percent of economic growth in the United States.⁴ Technical progress, in turn, is due primarily to advances in knowledge. Improved resource allocation and economies-of-scale in industry, stimulated by internal rural to urban migration, have been less important sources of technical progress.⁵

Additional people can spur growth, but they are not essential for it. Modern industrial economies *can* experience rising per capita incomes without population growth or immigration by providing more and better capital for each person employed and by pushing back technological frontiers.

Most models of economic growth show that increasing the rate of population growth will by itself raise GNP somewhat, but lower GNP per capita.⁶ Per capita income falls because the capital stock — machines that are used to produce goods and services — must be shared by more workers. As production gets more labor intensive, average wages and incomes fall. This

initial fall in productivity and wages can be reversed if society invests enough in new machinery and processes.

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Trends in real per capita incomes measure how rich we are becoming. During the 1970s, real per capita incomes rose at an average annual rate of 1.9 percent, above the average level of the past century but below growth rates in the 1960s. Why did many Americans feel poorer in the 1970s even though their per capita incomes were rising fast by historical standards? One explanation is that everyone has a short memory. But more fundamental is that the main source of rising per capita income in the 1970s changed from technical progress to work force growth.

The average income of Americans increases if more Americans work, so that national income has to be shared with fewer nonworking persons, or if technical progress permits the people who are working to accomplish more during each hour they work. Incomes rose in the 1970s because so many more people worked — the percentage of one earner families fell from 36 to 28 in the 1970s. Many families felt poorer because they had less leisure time even though their real incomes were rising.⁷

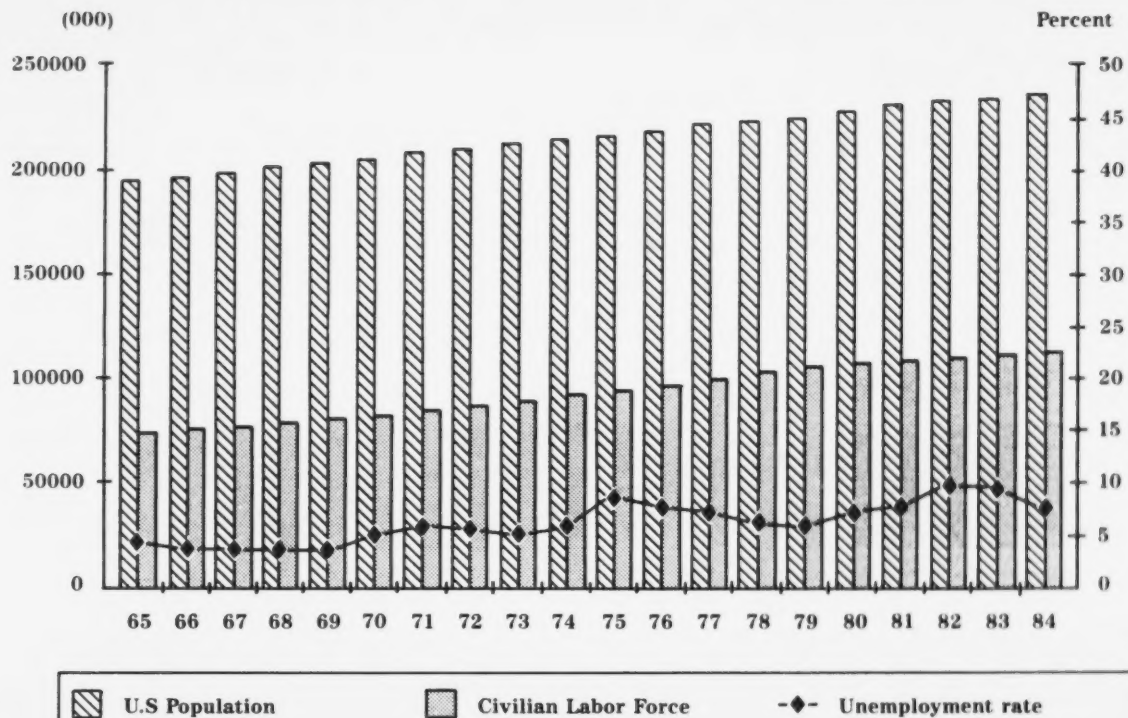
The failure of technical progress to generate more of the nation's economic growth has spawned debate over what is wrong with the American economy. The major explanations include underinvestment in industrial research, the 1970s energy price hikes, the U.S. economy's growing dependence on world events, and the disruptive effects of government regulatory and social welfare programs. To these must be added a demographic factor that has negatively influenced productivity — the surge in employment of women, teenagers and immigrants that has lowered the average productivity of the work force. Business expansion tended to take place in those areas where labor was abundant, cheap and unskilled rather than into areas requiring higher value-added technical innovations and fewer workers but more skilled ones.

Economic growth in many areas of the United States and in certain in-

Basic Labor, Economic, and Immigration Trends, 1968-84

	1	2	3	4	5	6	7	8	9
1		U.S.	Civilian	Unemploy-	Median	Prime	Business	Legal	Illegal
2		Population	Labor Force	ment	Family	Interest	Productivity	Immigration	Aliens
3	Year			(percent)	Income	Rate	(Output per		Apprehended
4					(1983 \$)	(percent)	hour)		
5									
6	1965	194347000	74455000	4.5	21968	4.5	78.3	297000	110371
7	1966	196599000	75770000	3.8	23123	5.6	80.8	323000	138520
8	1967	198752000	77347000	3.8	23672	5.6	82.6	362000	161608
9	1968	200745000	78737000	3.6	24720	6.3	85.3	454000	212057
10	1969	202736000	80737000	3.5	25638	8.0	85.5	359000	283557
11	1970	205089000	81771000	4.9	25317	7.9	86.2	373000	345353
12	1971	207692000	84382000	5.9	25301	5.7	89.3	370000	420128
13	1972	209924000	87034000	5.6	26473	5.3	92.4	385000	505949
14	1973	211939000	89429000	4.9	27017	8.0	94.8	400000	655968
15	1974	213898000	91949000	5.6	26068	10.8	92.5	395000	788145
16	1975	215981000	93775000	8.5	25396	7.9	94.6	386000	756819
17	1976	218086000	96158000	7.7	26179	8.8	97.6	399000	866433
18	1977	220289000	99009000	7.1	26320	6.8	100.0	462000	1033427
19	1978	222629000	102251000	6.1	26936	9.1	100.5	601000	1047687
20	1979	225106000	104962000	5.8	26885	12.7	99.3	460000	1069400
21	1980	227694000	106940000	7.1	25418	15.3	98.8	531000	910361
22	1981	230068000	108670000	7.6	24525	18.9	100.7	597000	975780
23	1982	232351000	110204000	9.7	24187	14.9	100.9	594000	962687
24	1983	234542000	111550000	9.6	24580	10.8	103.7	568000	1248000
25	1984	236681000	113544000	7.5		12.0	107.4	544000	

U.S. Population, Civilian Labor Force, and Unemployment Rate, 1965-1984



dustries rested on labor-intensive, low-skill processes which provided short-term gains, but limited prospects for sustainable long-term expansion based on productivity increases. Economic decision makers, when choosing between labor and technical innovations for their investment mix, increasingly chose labor. Subsequent discussion will help explain how the availability of illegal immigrant workers both contributed to this tendency and was in turn reinforced by it.

Network Recruitment and Labor Displacement

How did the flood of illegal immigrant workers in the the U.S. labor market after the mid-1970s affect the wages and job prospects of U.S. citizens and legal immigrants? There are three prevailing theories:

- *one-for-one displacement* assumes that illegal aliens and American workers compete for the same jobs, with the aliens winning out because they work “hard and scared” for less.
- *segmented labor market theories* assume that there is no labor market competition because illegal aliens and American workers look for different kinds of jobs.
- “*triage*” *theory* recognizes that some one-for-one displacement occurs, that many jobs can be upgraded to attract Americans, and that some jobs exist only because illegal alien workers are available.

None of these three theories takes fully into account the process of network recruitment of illegal aliens and its significant role in the process of labor displacement.

In 1978 and 1979, when six million Americans were unemployed and the Border Patrol was finding over one million deportable aliens each year,

Of the three different perspectives on how illegal alien workers and Americans compete in the labor market, "triage" provides the most convincing explanation of the dynamic process which leads to the domination of certain work forces by illegal workers.

some argued that unemployment would vanish if the then estimated five to six million illegal aliens could somehow be removed — an application of the theory of one-for-one displacement.⁸

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Unlike proponents of one-for-one displacement, segmented labor market theorists argue that illegal alien workers only compete for jobs that American workers shun, such as hotel cleaning or tomato picking. The "segmentation" theory further holds that if illegal aliens have any effect on the job and wage prospects of American workers, it is positive, since hotel cleaning and tomato picking make possible the continuation of better jobs for Americans as clerks, waiters, truck drivers, and food processors. According to this line of argument, the major "problem" associated with illegal immigration is violation of labor standards laws, suggesting that an alternative to border enforcement is more work place inspections of wages and working conditions.

One-for-one displacement and segmentation occupy the two extremes in the debate over competition between American and other workers. In between is the familiar and more reasonable triage assumption: for illustrative purposes, it can be assumed that for a given number of jobs held by illegal aliens, some might be filled by American workers if vacated; some might be filled by American workers only after the employer improves wages and working conditions; and some jobs might disappear because they would not be worth doing at higher wages, such as the housewife who resumes doing her own cleaning instead after the departure of an illegal alien maid or the farmer who decides that wages are too high to re-pick a field the third time.

Of the three different perspectives on how illegal alien workers and Americans compete in the labor market, "triage" provides the most convincing explanation of the dynamic process which leads to the domination of certain work forces by illegal workers. In many occupations most workers find jobs through tips passed along by friends and relatives. Awareness of this network recruitment system, which has become highly

developed by illegal aliens and their employers, is a key to understanding how illegal aliens displace American workers.

Most American businesses hire American workers — there are 107 million workers employed, including an estimated 3 to 6 million illegal aliens. Most mainstream American businesses such as steel and auto manufacturers; finance, insurance, and real estate firms; and government do not knowingly hire illegal aliens. And they have few problems recruiting and retaining American workers.

But the businesses that depend heavily on illegal alien workers typically experience a high turnover of American workers. A hotel cleaning staff, a light manufacturing operation, or a landscape service may have to hire up to 30 American workers each year to keep ten job slots filled. Many of these jobs pay relatively low wages, are physically demanding, or require work at nights or on weekends. American workers often switch employers if they dislike a supervisor or get laid-off and turn to unemployment insurance.⁹

Illegal alien workers from Mexico, Latin America, and Asia enlarged their foothold in these jobs in the 1960s and early 1970s in regions heavily affected by immigration. Some of these illegal aliens stayed only until reaching a savings target and eventually quit and returned home. For example, some of the braceros who stayed illegally after 1964 later returned to Mexico. However, some opened restaurants or garment shops in the United States, and many of these pioneer migrants found entry-level employment in U.S. hotels, factories, and service firms in major urban areas.

In the 1970s, two events turned this pioneer immigrant foothold into a dominant presence in many firms. First, the Civil Rights movement raised the expectations of many unskilled American workers, while the War on Poverty programs provided previously unavailable employment and training options or a better economic safety net for some of the American

workers who had traditionally accepted hotel cleaning, restaurant, and light manufacturing jobs. Second, illegal aliens began coming to the United States in greater numbers and a diverse group of labor-intensive businesses expanded after the economy recovered from the 1973-74 energy and food price hikes. Many of these small businesses had pyramid job structures: a few optimistic professionals with a concept or idea employed local clerical and sales workers in the front office and unskilled illegal aliens in the backroom warehouse or factory. Other small businesses, such as ethnic restaurants and landscapes services, were begun by immigrant entrepreneurs who employed friends and relatives.

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The proliferation of such small businesses further increased the demand for unskilled workers. However, as American workers continued to quit low-wage jobs or demand higher wages, some employers turned to the immigrant workers who had stayed with the firm, promoted them to supervisory positions, and left it to them to recruit new workers. These ethnic supervisors — some of whom had acquired legal status — turned to *their* friends and relatives to fill vacant jobs.

In California, the southwest, and a growing number of midwestern cities, as American workers quit, their replacements were drawn increasingly from Mexican villages. Small businesses that had suffered from the high turnover of American workers soon realized that illegal immigrant workers gave them, at least for a while, the same reliable workforces as those enjoyed by mainstream businesses, but without raising wages or improving labor standards.

The low-cost illegal immigrant workers hired and supervised by ethnic foremen were a welcome relief to the often shaky businesses that depended on them. A furniture or shoe manufacturer in high-cost Los Angeles could be assured of a virtually unlimited supply of eager minimum-wage workers who could be trained in one day and closely supervised to assure quality work. A restaurant or hotel could offer its customers superior back-room service without increasing its production costs because illegal im-

**Network recruitment and ethnic supervision
change the nature of the work place,
making it even less congenial to the
American worker.**

16 migrants proved to be more loyal and dependable than the mixed crews of Americans they replaced.

Businesses became dependent on illegal immigrants because they realized that they could get the employee loyalty and reliability of high-wage and mainstream businesses, even at minimum wages and without fringe benefits and investment in professional personnel management.

The secret to such work-force changes lay in the employer's decision to turn work-force recruitment and supervision over to an ethnic foreman who could recruit illegal alien friends, relatives, and countrymen as workers. Once an initial ethnic work crew was assembled, the workers' information network perpetuated the recruitment and training of new workers with no advertising, screening, or training costs to the employer.

As illegal immigrants learn more about the U.S. labor market, they are more prone to quit one low-skilled job for another because wages are higher or the work is easier. As settled immigrant workers acquire some of the traits of American workers, employers must either upgrade wages and working conditions or tap into a more recent immigrant network. The more recent recruits usually spend from several months to a few years on the job before they too begin to get restless.

Network recruitment and ethnic supervision change the nature of the work place, making it even less congenial to the American worker. The language of the work place changes from English to Spanish or Chinese. Most of the illegal immigrant workers are friends and relatives, and the workplace culture changes to reflect their shared experiences, such as growing up in a Mexican village. Frequently, the business owner often loses touch with the workers because he or she cannot speak their language, and the owner becomes dependent on a bilingual supervisor to be an intermediary.

The network recruitment and ethnic supervision system is an efficient way to hire low-cost workers. New employees can be recruited quickly,

trained at little or no cost to the employer by friends and relatives already employed, and laid-off during business downturns. As long as ethnic supervisors remain employed, the work force can be reassembled or a new work force recruited if business picks up. If an entire work force is apprehended by INS or discharged an employer can pay a *coyote* (labor smuggler) \$300 to \$1,000 per worker for a new work force to establish a new network recruitment system.

Field research confirms the existence of kinship and village networks that educate workers abroad about U.S. job opportunities and wages.¹⁰ These networks provide information and sometimes financing for the trip across the U.S. border, acting as private employment agencies and training schools for new arrivals.

Initially, the pioneer migrants from abroad are young men who come to the U.S. as target earners, hoping to save enough money for economic advancement back home. However, as migrant networks "mature," pioneer migrants find better jobs and gradually help friends and relatives move up in the U.S. labor market. Better U.S. jobs are harder to give up, and some migrants send for their families. The arrival of women and children extends job networks into new workplaces, encouraging more families to come to the U.S.

The pace of network maturation varies considerably: some networks make the transition from farm to factory within five years, others continue to link Mexican villages and U.S. farms as they have done for two generations. However, most field research suggests that more and more illegal workers are bypassing low-wage farm jobs and going directly to urban areas, where immigrant families have gained a foothold, persisted, and now fill jobs in a variety of work places.

As different Mexican villages get linked with particular American work places, the network recruitment system increases the dependency of Mexican villages on the American labor market.¹¹ Instead of adopting public

Network recruitment not only excludes American workers from certain jobs; it also builds a dependency relationship between U.S. employers and Mexican sources that requires a constant infusion of new workers.

18 and private policies to create jobs that would reduce emigration pressures in the future, the Mexican government often has neglected areas that can live off remittances and has traditionally concentrated its own resources on capital-intensive development. The village itself looks to its workers in the United States for income instead of developing its own limited resources. The recruitment network erects an umbrella over American work places, reserving these jobs for workers from a particular Mexican village or region. This network is the primary asset of many Mexican villages; it increases the wealth of the village because village workers can obtain jobs in the United States and send back remittances. Particular villages "own" the jobs in various American farms, hotels, and factories, and this cross-border dependency is increasing over time.

Decades of such cross-border dependency have made these recruitment networks an integral part of the fabric of Mexican village economies and Mexican workers key parts of some U.S. industries. As these labor migration networks become more entrenched, the economic impacts of illegal immigrant workers change. Some illegal workers settle with their families in the United States and their attitudes and work-place behavior change. Indeed, both the Mexican villages and the U.S. firms in many cases come to depend on a constant migration of *new* workers across the border: the villages to continue the remittances, and the firms to keep their migrant workers flexible. As European nations discovered with their legal foreign workers, *time* spent in the country more than extension of citizenship or political rights to foreigners determine the economic impacts of migrant workers.¹² Network recruitment not only excludes American workers from certain jobs; it also builds a dependency relationship between U.S. employers and Mexican sources that requires a constant infusion of new workers.

Ethnic recruitment networks are *not* a recent feature of American labor markets. A turn-of-the-century study of labor markets concluded that "most white immigrants secured employment directly or indirectly through compatriots . . . employers had quite definite ethnic preference

in hiring . . . over time, these ethnic employment patterns solidified still further and social networks provided the new foundation for recruitment . . . these networks rarely crossed ethnic boundaries."¹³ As in the past, today's ethnic networks make it difficult for a single public agency, such as the employment service, to collect and disseminate job-matching information to all workers because the private job information networks are considered better by both employers and alien workers. Established employers are dependent on the system. Prospective new entrepreneurs open businesses in those areas and are assured that network recruitment will provide them abundant low-cost, flexible labor.

Effects on American Workers — "Losing the Bridge" to Unskilled Jobs.

Network recruitment and ethnic supervision yield three work-place ironies for American workers:

- Unemployed English-speaking workers are *excluded* from categories of U.S. jobs because they do not speak the "right" work-place language, do not fit in culturally or do not have the "right" contacts to learn about these nonadvertised job vacancies.
- Employers using the network, for whom wages are 30 to 60 percent of production costs, typically can get by with small personnel offices or none at all — in sharp contrast to the large personnel departments maintained by businesses elsewhere that are highly dependent on people.
- Illegal alien workers replace Americans because they work cheaper and harder, *and* because they are readily available as American workers quit. Periodic INS raids, paradoxically, may make such immigrant work forces even more reliable because they permit the employer to weed-out troublemakers without seriously disrupting production schedules.

The cross-border recruitment system provides illegal alien workers with a more sophisticated job-search network than is available to many unemployed American workers.

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These work place realities can be illustrated with case studies of several businesses.

The American workers who were once recruited for low-wage, high-turnover jobs have lost the bridge that used to connect them to such jobs. Poorly-educated and -trained American workers who do not have friends and relatives already employed in such work places are less likely to obtain jobs and learn even rudimentary work skills such as coming to work every day and listening to a supervisor's instructions. Many observers have emphasized the effect of unemployment of this missing bridge to jobs. Charles Murray notes that in the 1970s low-income youths became "decoupled from the mechanism whereby poor people in this country historically have worked their way out of poverty,"¹⁴ although Murray blames the availability of welfare, not immigrant workers, for destroying the job bridge.

Restaurants and hotels include in their work forces some citizens or legal workers, because they need English-speaking clerks and waiters. Most illegal aliens are usually confined to kitchen and cleaning jobs. A major hotel may have several hundred cleaning and kitchen jobs, but few are advertised after the ethnic supervision and network recruitment system is in place. Instead of advertising vacant jobs or posting vacancies at the Employment Service, the friends and relatives of immigrant workers are recruited privately. Since these recruitment networks operate efficiently within ethnic enclaves in the United States and villages abroad, unemployed Americans who scan the want ads and visit the Employment Service seldom learn about such job vacancies. An unemployed American who tries to apply for such jobs directly is sometimes referred to a supervisor who speaks little or no English, and many then give up the search. The cross-border recruitment system provides illegal alien workers with a more sophisticated job-search network than is available to many unemployed American workers.

Fruit and vegetable farming is an \$18 billion a year business (at the farm

level). Wages are 30 to 60 percent of the cost of producing oranges, strawberries, and grapes.¹⁶ A strawberry farmer, for example, can incur wage costs of \$12,000 to \$15,000 per acre and aim to obtain \$25,000 for the strawberries. Fruit and vegetable farming is a high-cost, high-risk, and potentially high-profit enterprise. If everything goes right the farmer may reap a profit of \$5,000 per acre, a sharp contrast to the average gross revenue of \$100 per acre for a Kansas wheat farmer and profits in a good year of \$10 to \$20 per acre.

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High-value farm commodities are often perishable — to obtain the best quality and price, fruits and vegetables should be picked within windows of three to seven days.

Given the high-potential profit and high-risk nature of strawberry production, a 100-acre strawberry farmer with an annual payroll of \$1.2 million could seemingly benefit from a personnel department that would carefully screen workers, develop programs to attract and retain the best harvesters and ensure productivity. However, the typical strawberry farm has no such personnel department. Most growers assume that a harvest work force will be available when it is needed. Most growers simply hire everyone who shows up to pick, pay them piece-rate wages so that the cost of harvesting is about \$1.25 per 12-pint tray whether the strawberries are picked by a fast worker or a slow one, and lay workers off from day to day during the season and at the end of the season. Ethnic crew leaders and farm labor contractors assume the farm's personnel management function, recruiting and supervising harvest workers. By relying on the ethnic recruitment and supervision system growers do not have to devote themselves to personnel management.

Network recruitment can stabilize low-wage employment, encouraging employers accustomed to high worker turnover to establish work rules that make jobs even more unattractive to American workers and reduce pressures from the more settled illegals for improved wages and conditions. Some hotels and restaurants for example, have put more of their

periodic INS raids can *increase* the reliability of an illegal alien work force because the benefits of permitting an employer to winnow out "troublemakers" can outweigh the costs of disrupted production.

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work forces on "on-call" status. Workers are expected to be available, but they are paid only if they are actually needed. Other businesses have adopted split shifts: some janitorial firms have converted an eight-hour shift into two four-hour shifts, lessening the attractiveness of jobs. Unionized hotels and restaurants have resisted on-call and split-shift policies that increase worker turnover, but employers with long waiting lists of job applicants or with access to an efficient recruitment network feel free to make such changes.

Illegal alien workers are often valued more than Americans because of lower absenteeism rates. If employers want a reliable low-wage work force, then periodic INS raids presumably should make illegal aliens less reliable and encourage employers to turn to Americans. However, periodic INS raids can help *increase* the reliability of an illegal alien work force because the benefits of permitting an employer to winnow out "troublemakers" can outweigh the costs of disrupted production.

As illegal immigrant workers learn about American society and their workplace rights, some workers become union activists and demand wage and fringe benefit improvements. An ethnic supervisor may not want to risk the unlawful step of firing workers solely because of union activities. Firing may also boomerang by encouraging the friends and relatives of the fired worker to become pro-union. An easier way for some employers to rid themselves of immigrant troublemakers is to wait for, or even request, an INS raid and then selectively rehire apprehended workers when they return. Selective rehiring — even though it too is unlawful — is one reason why employers of illegal alien workers frequently report that they have "a good relationship" with the INS.¹⁶

Legal and illegal immigrants are a double-edged sword for American unions. Most unions are opposed to large-scale illegal immigration because a larger work force reduces union bargaining strength. However illegal immigrant workers tend to concentrate in goods-producing industries that have traditionally been union strongholds but have shed workers in the

1970s and 1980s. Some unions recruit illegal workers to maintain their bargaining power, since nonunion firms using illegal workers could soon undercut established unionized firms. Union leaders at times are trapped between employers seeking wage concessions to stay in business and immigrant workers whose presence generated or preserved the business, forcing difficult decisions on where to draw the line on concessions to save jobs. Unions representing work forces that are 50 percent illegal are reluctant to call strikes because illegal alien strikebreakers from other village networks are readily available and because employers often ask the INS to check the legal status of strikers.

Network recruitment and ethnic supervision explain how illegal aliens gain a foothold with certain businesses and then exclude unemployed English-speaking workers from job vacancies. Unlike the one-for-one displacement hypothesis, network recruitment allows the low-wage employer to have at his disposal a reliable work force without having to weigh the merits of two or more workers competing for a single job slot. Unlike the segmented theory, network recruitment emphasizes the initial mingling of American and immigrant workers in the work place and the tendency of the recruitment system — and the nature of the job — to eventually exclude Americans. Reinforcing these economic barriers are the cultural and linguistic isolation the minority English-speaking American worker feels in breaking into or adjusting to a work place dominated by non-English-speaking immigrants.

The Characteristics of Illegal-Alien and American Workers

Network recruitment helps to explain why illegal aliens eventually dominate the work forces of particular farms and factories. But why don't unemployed Americans replace the illegals apprehended in well-publicized raids such as the 1982 *Operation Jobs*? The answer is complex and varies from firm to firm: illegals usually work harder than American workers; unlike U.S. workers, illegals lack an alternative to low wage jobs; illegals

may be able to better evade U.S. taxes; and illegals are less likely to insist that employers obey labor standards laws — all characteristics making them preferred in the eyes of employers.

Anecdotal and survey evidence suggests that many illegal aliens at least initially work harder than similar American workers. Many of the jobs filled by illegals are physically demanding, and American workers hoping to eventually find a better job are more likely to complain. Illegal aliens, on the other hand, often have a savings target and are willing to work very hard to keep their jobs. Such workers maintain a fast pace under piece-rate wages to maximize their earnings. Illegal alien workers often accomplish more during each hour worked in certain jobs and often work more hours per week or year than American workers.¹⁷ In some instances, the availability of illegal alien workers makes it unnecessary to spend money to make the work environment better.

Why are illegal alien workers satisfied with the relatively low wages that American workers would complain about? The most important reason is expectations: American workers, raised in a culture that emphasizes high consumption and upward mobility, realize that low wages will not buy them the American dream. For young American workers, high-turnover farm and factory jobs offer only temporary employment until a "real" job becomes available. American workers also have easier access to safety-net programs such as welfare and unemployment insurance, and are thus not forced to accept "immigrants' jobs."

Many illegal aliens similarly regard their U.S. farm and factory jobs as temporary, but the illegal alien workers see U.S. wages of five to 10 times their earnings at home as a temporary bonanza, not a temporary purgatory. However, just as many young American workers get trapped into low-wage jobs for a lifetime, so many illegal alien workers eventually settle in the United States instead of returning.

Different expectations are the most important reason that illegal alien

In some instances, illegals can be paid a lower overall hourly wage than American workers but still obtain more take-home pay.

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workers are satisfied while American workers fret about the same jobs. However, there are also economic reasons for the illegal workers' satisfaction. Employers concern themselves with the *total* costs of hiring labor: wages, payroll taxes for social security and unemployment insurance, and fringe benefits such as health insurance and pension benefits. In contrast, many of the young illegal workers in low-wage jobs are concerned primarily with their take-home pay. In some instances, illegals can be paid a lower overall hourly wage than American workers but still obtain more take-home pay.

For most workers, hourly wages are only 75 percent of total wage costs because employers must also pay social security, unemployment insurance, and disability coverage. Many employers also voluntarily provide fringe benefits such as health insurance and pension benefits. Since illegal workers are less concerned about fringe benefits than American workers, employers can eliminate fringe benefits and save money. Some employers go further and illegally fail to make required contributions for social security or disability insurance, saving up to 20 percent of their wage costs. These employers gamble that this failure to pay mandatory taxes will go unnoticed because illegal alien workers will be afraid to apply for benefits.

Sometimes employers and illegal alien workers cooperate to avoid taxes by dividing up the 7 percent worker and 7 percent employer contribution to social security. No income taxes are withheld from the farmworkers unless the worker requests withholding, and many non-farmworkers claim large numbers of dependents to minimize the income tax withheld and then fail to file income tax returns.

Employers sometimes hire workers as "independent contractors" so that the workers are responsible for making their own tax payments. In agriculture, this "independent contractor" status permits the worker to employ his children legally as farmworkers. In construction and services, "independent contractors" frequently change job sites to hamper detection and prosecution. Finally, some employers hire only "casual" workers,

since an employer is not required to withhold income or social security taxes from workers employed less than 30 days. "Casual" workers are sometimes re-employed month after month.

Illegal alien workers may willingly cooperate with employers to avoid income and payroll taxes, or they may often be unwilling or uninformed parties to it. But, illegal workers are almost always the victims of employer attempts to reduce costs by violating laws regulating minimum wages and maximum hours, safety and health standards in the work place, and the right to organize and bargain. The underfunded and undermanned Department of Labor inspection staff often relies on complaints to determine which of the 6 million business establishments to inspect. An illegal alien work force is less likely to complain. Employers in industries prone to workplace accidents such as agriculture and construction are inclined to prefer illegal workers to minimize the potentially high costs of complying with safety and health standards.

Can employers distinguish between legal and illegal workers? Many employers assert they "know" who is legal and illegal. A San Diego farmer had used this reasoning: "Since we've got about 99 percent undocumented in the field, I consider anybody who shows up to be undocumented."¹⁸ A study of hiring by Los Angeles manufacturing plants found that a worker's legal status "was deduced from his speech (use of Spanish) and references. Often jobs went to friends or family members of the undocumented production workers."¹⁹ Thus, after illegals gain a foothold, employer knowledge, preferences, and immigrant recruitment networks reinforce each other to yield *concentrations* of illegal immigrant workers. In 11 Los Angeles manufacturing firms making auto parts and plastics with 35 to 1,000 workers, seven surveyed had work forces that were at least 90 percent immigrant workers.²⁰

Business Competition and Wage Depression

A frequent claim is that illegal aliens depress wages because employers

The Southern California lemon industry provides an unusually clear illustration of how competition between employer associations (which tried to avoid hiring illegal aliens) on one hand and labor contractors (who depend on illegal aliens) on the other depressed wages and displaced American workers.

know their vulnerability weakens their bargaining power relative to American workers. Although there are instances of such unequal pay for equal work, network recruitment often produces over the longer term illegal alien *or* American work forces, but not a mixture, in job categories such as kitchen staff, assembler, or farm hand.²¹ If enterprises in an industry tend to divide into those with mostly legal and those with mostly illegal workforces, then competition between them can depress wages, or it can displace American workers, or both. In most industries, the competitive process that ultimately displaces American workers is complex. Some examples might clarify it:

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Subcontracting and Displacement

California and Arizona produce most of the nation's fresh citrus on farms that typically are owned by corporations or absentee investors. Citrus harvesting is coordinated by the packinghouses that sort and sell oranges and lemons to retail stores. Citrus harvest crew leaders must deal with these packinghouses to coordinate the flow of fruit from the grove to the supermarket. Harvest crews are organized by labor contractors, employer associations, packinghouses, and individual growers or farm managers.

The Southern California lemon industry provides an unusually clear illustration of how competition between employer associations (which tried to avoid hiring illegal aliens) on one hand and labor contractors (who depend on illegal aliens) on the other depressed wages and displaced American workers.²² The employer associations hired bilingual managers in the early 1970s to establish professional and legal lemon harvesting crews. These managers then developed a standard wage and fringe benefit package that was among the best in agriculture. By 1978, the employer associations had stabilized the harvest work force at one-eighth its previous size and the average worker at the largest co-op earned \$5.63 hourly and \$3,400 for seasonal work that lasted 10 to 30 weeks.

Lemons are overproduced. Only a carefully selected 25 to 40 percent of those harvested are sold to consumers as fresh lemons. Most lemons are diverted to the money-losing processing market. Farmers are usually required to harvest all of their lemons to receive the money-making price for the 25 to 40 percent sold as fresh lemons.

Several years of low lemon prices coincided with a union-organizing drive in 1978-79 to yield union election victories among lemon harvesters, already among the best paid farmworkers in the United States. Growers resisted unionization by encouraging labor contractors to come into the area and harvest lemons. The contractors relied on illegal-alien workers, who did not demand increased wages or fringe benefits. Meanwhile, the union won wage increases and refused to make concessions because it needed the wage gains to increase its appeal to unorganized workers. These wage increases proved to be a pyrrhic victory: Labor contractors soon took market share away from the unionized co-ops. While they had harvested 80 percent of the area's lemons in 1979, the co-ops harvest less than 10 percent today. Contractors increased their market share from 10 to 80 percent.

Contractors dependent on illegal aliens displaced American workers and depressed wages, even though it's hard to find these effects in labor statistics. Some of the unionized workers are still employed, but for fewer weeks and with more use of unemployment insurance. The lower wages paid by labor contractors rarely get reported in labor statistics. When contractor wages are reported, they tend to be misleadingly high because they do not include overcharges for transportation, housing, meals, and work equipment.

Labor contractors and illegal alien workers replaced labor co-ops and U.S. citizen and legal immigrant workers over five years ago. Now that labor contractors harvest most of the lemons, the lemon industry can assert that "without illegal aliens we will go out of business," since the co-ops, their work forces, and their infrastructure are disappearing. It was not

the nature of the job that made the lemon industry dependent on illegal aliens; it was a series of decisions to reduce harvesting costs and to turn to labor contractors that replaced American workers with illegal aliens.

A similar displacement process occurred in the San Diego agriculture. In the mid-1970s, the fear of union activity in southern San Diego county and the advantage of the inaccessibility to the Border Patrol of the hilly rural northern area encouraged producers of tomatoes and strawberries to, in the words of one grower, "look for a farm that has a certain amount of inaccessibility."²³ The United Farm Workers (UFW) union charged that one large tomato grower deliberately discriminated against the legal farmworkers who wanted UFW representation, most of whom were Mexican legal residents or commuters. An appellate court summarized the displacement process:

"Before 1975, factors favoring legal workers had included their relative permanence and immunity from deportation, while the illegals had in their favor their willingness to do more work for less money . . . after 1975, [the employer] admittedly began preferentially hiring from the illegals."²⁴

San Diego agriculture illustrates both how illegal workers displaced legal workers and how this displacement process has impeded mechanization, since the hills inaccessible to the Border Patrol also work against the use of machinery.

Subcontractors and immigrant workers have displaced construction workers in a similar fashion. Michael Piore drew a distinction between the role of immigrant workers in Europe and the United States:

"Construction is the most intensive employer of immigrants throughout Northern Europe. In a good part of the United States, however, construction crafts are the aristocracy of blue-collar work; positions are reserved for native workers, and the minorities . . . have been carefully excluded."²⁵

Piore's argument that the strength of unions and high skill requirements made it difficult for American contractors to employ immigrant workers is a contention not supported by recent trends.

The construction industry shares many of agriculture's features: it is an important sector of the economy; there are thousands of contractors and even more subcontractors, but a few firms account for much of the new building in a region; and construction employment is seasonal. Wages are typically half of the total costs of building.

The construction industry has three major subsectors: general builders and commercial construction, new home building, and rehabilitation of existing buildings. Unions are strongest in the general construction of downtown offices and major projects such as dams and bridges, in part because governments are often buyers of such projects. On such projects, most workers satisfy Piore's definition of blue-collar aristocrats.

The work forces of new-home builders are more diverse. While many union workers are employed on home sites, contractors and subcontractors also turn to illegal immigrant workers to fill both skilled and unskilled jobs and to blunt union organizing efforts.

Home-building and "rehab" work are often dominated by financially strapped subcontractors who reduce labor costs to help them bid low on jobs and then make the work profitable. A study of labor in the Manhattan construction industry found that illegal immigrant workers, often trained by their fathers in Jamaica or the Dominican Republic and recruited by kinship networks, dominate the "rehab" workforces of subcontractors.²⁶ Most of the employers had fewer than 10 workers, and many of the building permits listed a much smaller rehab task than was actually undertaken, concealing the spread of illegal immigrant workers in this sector.

A similar story of subcontracting and competition among businesses with different degrees of dependence on illegal aliens explains how flexible and

The availability of illegal alien workers and the search for lower costs link up to promote subcontracting, which then selectively lowers some production costs and transfers others to society as a whole, while it discourages American workers from seeking certain jobs.

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lower cost contract janitorial services have displaced direct-hire janitors and have encouraged the subcontracting of garments and computer assembly jobs. In many cases, a mainstream business seeking to lower production costs seeks savings by sub-contracting particular operations: Examples are the building owner who can either hire a janitorial staff or rely on a janitorial service, or the apparel company that can hire seamstresses directly or subcontract sewing. The search for lower costs pushes such businesses to subcontractors who recruit illegal immigrants as workers.

The use of illegals by subcontractors has two pernicious effects. First, if subcontractors really are cheaper, most businesses are forced eventually to switch to them to compete. Different businesses will feel different degrees of pressure: mainstream vegetable farms paying hourly wages of \$10 or more to U.S. citizens and legal immigrants are hurt by the subcontracting of competitors, as are unionized garment shops that must compete with sweatshops. Janitorial service is a relatively small cost of building ownership. But when vacancies reduce rents, building owners seek to cut costs. No business is an island. If one business can save by subcontracting to an illegal work force, other businesses face competitive disadvantages if they do not follow suit.

Business competition can promote the spread of subcontracting across an industry, change the structure of jobs, and discourage American workers from taking jobs that might have once been acceptable. An unskilled American worker might be willing to start as a janitor for a major bank or insurance company and hope to work up the job ladder. But the same worker may shun what he sees as a dead-end job with a janitorial service that *only* cleans buildings. Similarly, an American worker willing to join a major building contractor or manufacturer as an unskilled worker may turn down a job with a subcontractor who only handles low-wage clean-up or assembly operations.

The availability of illegal alien workers and the search for lower costs link

up to promote subcontracting, which then selectively lowers some production costs and transfers others to society as a whole, while it discourages American workers from seeking certain jobs.

Subcontracting and illegal-alien work forces are no longer confined to established immigrant sectors such as agriculture, footwear and garments. Subcontracting and illegal-alien workers also sustain more glamorous high-tech²⁷ industries such as computers, plastics, and telecommunications. In the semiconductor and electronics industry, unskilled operators outnumber engineers eight to one. Many of these operators are immigrant workers stuffing circuit boards on traditional assembly lines. These assembly-line jobs have been migrating abroad; the so called "Atari Democrats" of 1983 needed to change the descriptive adjective associating them with high-tech employment after Atari moved several thousand low-wage assembly jobs from California to lower-wage Asian nations.²⁸ Low-skill high-tech jobs that do not move abroad are often automated in the United States.

As high-tech manufacturers have been increasing their employment, established smokestack manufacturing firms in autos, steel, and rubber are laying off experienced American workers. But there has been little transference of workers from the shrinking industries to the growing ones. Most new high-tech workers are immigrants and American women who have never had manufacturing jobs before. *Business Week* quotes observers who note that most government planners have failed to realize that displaced manufacturing workers "spurn high-tech jobs as menial and demeaning," so those officials persist in unrealistic plans to lure high-tech firms to shore-up their local economies.²⁹

The movement of unskilled manufacturing jobs abroad — a trend-strengthened by the overvaluation of the U.S. dollar — raises trade and productivity questions. Even with low-wage immigrant workers, many American firms still cannot compete with imports. For example, the electronics trade deficit was \$7 billion in 1984 and may reach \$12 billion in 1985. Most electronic production processes involve engineering and scien-

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tific conception as well as manufacturing and assembly, and distribution and maintenance. Some argue that without the low-wage illegal immigrant workers the higher skilled "good" technical and professional jobs held by American workers will be lost to overseas competitors. But with the United States as the world's largest marketplace, distribution and maintenance jobs are likely to remain near consumers. Even if manufacturing and assembly-line jobs migrate abroad, the United States will still retain most of the conceptual creative jobs that accompany new products.

Immigration Enforcement and Business Failure

Subcontracting often lowers wage costs and decreases the attractiveness of jobs to American workers. Subsequent INS enforcement of immigration laws against such subcontractors is then wrongly blamed for destroying a business. During the 1970s, for example, low-wage manufacturing employment expanded in California despite escalating housing prices. Some of these new and expanding businesses are now dependent on a flexible and low-cost immigrant work force. If the INS conducts truly disruptive raids, business owners assert that their existence is threatened.

These business owners are probably correct — most of them *will* go out of business. But many of these marginal businesses will close in any event. Immigration enforcement is wrongly blamed for putting a firm out of business while the real reasons for business failure remain less clear.

A food processing example illustrates how enforcement can be blamed falsely for business failure. Processing chicken for the California market is a messy job done by black and white American workers in the south-east, by Mexican-Americans in Central California, and by illegal alien workers in the urban areas of Northern California. Several of the Northern California poultry-processing firms were raided during the 1982 INS *Operation Jobs*. The poultry firms quickly claimed that Americans

wouldn't do such work for the \$5 to \$6 an hour they were paying and that higher wages would put them out of business because of competition from the Southeast and Central California.

The Northern California poultry firms were being honest when they asserted that without illegal alien workers they would go out of business. What they failed to add was that *even with* such workers they could not survive because the poultry industry had changed and left them isolated.

Feed is about three-fourths of the cost of raising broilers. Northern California farmland that can grow grapes is too expensive to use for wheat and corn. Rising energy prices in the 1970s encouraged poultry production to shift to southeastern states — which produce 88 percent of U.S. broilers — that are closer to the midwestern corn fields. It takes two pounds of feed to produce one pound of poultry, making it cheaper to ship poultry instead of chicken feed to California. The INS *Operation Jobs* was a convenient target for the frustrations of Northern California poultry processors, but the "real villains" are OPEC, the southeastern competitors who built modern processing facilities, and investors in vineyards — not the INS. *Operation Jobs* became a more visible target than the underlying economic reasons for business failure.

This example illustrates a basic feature of a dynamic economy: every business is buffeted constantly by changing economic forces. Many businesses do not survive: fully one-third of the 500,000 to 600,000 new businesses started each year in the United States soon fail. The Small Business Administration reports that 80 percent of all new businesses fail within 10 years.³⁰ Even well-established firms can find that they are in shrinking or sunset industries — as recently as the 1920s, there were over 80 American companies manufacturing cars. An illegal alien work force cannot buffer firms against the underlying economic forces that are affecting an industry. Although it may preserve a sunset business for a few more years. Illegal aliens are thus a selective subsidy to certain employers and industries. An employer who "needs" alien workers to fill \$4 per hour

jobs when American workers demand \$5 hourly is simply asserting that the firm cannot operate without a wage subsidy.

The American economy is creating new businesses and jobs at an unprecedented rate, some of which will depend on the illegal immigrant wage subsidy. The number of new businesses started annually has increased more than fivefold in three decades, from 90,000 to over 500,000 annually. This spurt in business activity has created jobs for professionals and managers and generated a great deal of praise for the entrepreneurial spirit of the U.S. economy. But even boosters such as John Naisbitt acknowledge that "most new jobs tend to fall on the no-skill, low-pay side" of the labor market,³¹ jobs such as food-service worker, custodian, clerk, and attendant.

How many of these new unskilled and low-wage jobs were created because illegal immigrant workers were available? An overall guess is difficult to make, but it is clear that during the 1970s, some industries expanded despite economic trends that should have made them contract. Low-wage garment manufacturing employment expanded in New York and Los Angeles, two of the urban areas where housing is most expensive. Other labor-intensive manufacturers also expanded in those areas in defiance of the gap between low wages and high living costs, such as furniture and luggage, shoemaking, and computer assembly. However, these mobile manufacturing industries are poised to automate and/or move abroad if wages rise, so the United States simply gains a few years of sweatshop profits for its toleration of their employment practices.

Immigrant Workers: Benefits and Costs

The idea that we have need of certain types of workers, of whom there is said to be a shortage is . . . seriously in error. *Regularly*, to grant special entry permits to certain groups of workers, whatever the reason, is to

subsidize their employers and (perhaps) the consumers of their output, at the expense of their native labor market competitors. (emphasis in original)

Melvin Reder (1963)³²

By conservative estimates the American economy has absorbed three to six million illegal-alien workers over the past ten years. For the same period, Americans have debated the magnitude and effects of illegal immigration and, while there is wide acceptance that they take jobs from American workers, there has been no consensus on the measures required to keep them out.

Economic theory suggests that the presence of additional workers — be they baby-boom teenagers, married women, or immigrants — tends to depress wages, hold down consumer prices, and increase business profits. These profits can then underwrite business investment that results in new firms and factories, new jobs, higher wages and productivity, and a growing economy.³³

This scenario of extra people-lower wages-lower prices-higher profits-faster economic growth rests on two critical assumptions: 1) the availability of idle resources such as land and capital (including technology), and 2) economies-of-scale in production. The "idle resources" argument was true for the first 150 years of American history — the United States had unexploited land and mineral resources that were developed with immigrant workers and both European and American capital.³⁴ Today, the U.S. economy does not have resources that are idle *because* there is not enough unskilled labor. Solving the challenges on technology's frontiers might be expedited with the help of additional scientists and engineers, but no one seriously argues that a shortage of unskilled labor is slowing down technological progress.

The economic justification for more immigrant workers often rests on the

presumed advantages of economies of scale. Immigration, it is argued, provides both more workers and more consumers. The additional workers make possible larger industries with greater output at lower unit cost; the increased volume of low-cost products is then consumed and made profitable in a market expanded by immigration.

Dissenting economists argue that economies of scale can be obtained with even greater efficiency through international trade and investment. Large-scale, low-cost production can better be achieved by taking the work place to the labor rather than by bringing the labor to the work place. Similarly, consumers of an American product can be spread throughout the world and still contribute to the ability of the U.S. consumers to buy that product at lower cost.

A second objection to the proposition that "immigrants don't cost — they pay" is that the lower wages higher profits claimed are *not necessarily* translated into business investment that leads to more economic efficiency and lower consumer prices. It is one thing to have profits to invest — it is another to have an *incentive* to invest. The history of development of industrialized countries shows that rising wages were an incentive for both technological advances and for entrepreneurs to invest in the labor-saving machinery they made possible. These changes increased worker productivity and lowered consumer prices. Higher profits enable businesses to make productivity-increasing investments. The availability of low-wage labor deprives entrepreneurs of incentives to make such investments. As Ray Marshall noted in his dissent to the Final Report of the Select Commission on Immigration and Refugee Policy, "Additional supplies of low-skilled alien workers with Third World wage and employment expectations can not only lead employers to prefer such workers, it can also lead to outmoded labor-intensive production processes, to the detriment of U.S. productivity."³⁵

Lower wages and higher profits can become a double-edged sword affecting economic growth. Higher profits enable firms to invest more, but lower

Like other forms of subsidy, illegal immigration has distorted the optimum allocation of resources in developing the economy.

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wages can discourage firms from buying costly equipment when cheap labor is readily available. Low wages, uncertain economic prospects, and high interest rates can discourage productivity-increasing investment despite high profits. As the *Wall Street Journal* notes: "Labor is a relatively cheap and flexible expenditure for companies to make, especially when you compare it with the price of capital and energy."³⁶ Low wages, uncertainty, and high interest rates encourage many firms to hire easily laid-off workers instead of committing themselves to buy equipment which must be paid for whether it operates or not, helping to explain why parts of the American economy remain more labor-intensive in the 1980s. Like other forms of subsidy, illegal immigration has distorted the optimum allocation of resources in developing the economy.

Even though wages have been rising slowly in the 1980s, some U.S. businesses have been investing in labor-saving production methods because their managers believe that the U.S. over the long haul cannot compete with foreign producers on wages. A rubber company president is quoted as asserting that "We'll never have labor rates [in the U.S.] comparable to developing countries . . . we've got to out-innovate or out-automate the world if we're to have a chance of competing."³⁷ Even with wages rising slowly, the prospect of rising real wages can be an incentive for businesses to invest in labor-saving innovations. Businesses whose owners depend on immigrant workers and who believe that "cheap labor" will always be available, often fail to plan for higher cost labor in the future. They then echo agriculture's traditional lament that proposed immigration reforms will "put us out of business."

The U.S. economy must first absorb American minorities, teenagers and women — they are already here and the country has already made a commitment to provide jobs for all Americans who want to work. Controlling the level of immigration is one of the few policy choices universally recognized as a sovereign right of nation-states. As Vernon Briggs emphasizes, immigration affects the number of workers in the United States, the operation of U.S. labor markets, and business planning, so the U.S.

government can and should regulate the number and kind of immigrants it admits in a way that maximizes the well-being of American workers already here.³⁸

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The unskilled illegal immigrants who entered the United States labor-market over the past decade lowered overall wages, and has had marked effects on wages in particular labor markets.³⁹ American teenagers and women are spread throughout the country, and their varying levels of education and skill prevent locally concentrated impacts. Immigrants, however, are concentrated in particular industries, areas, and occupations, and once they gain a foothold, ethnic network recruitment fills job vacancies and excludes unemployed Americans.

Does the American Economy Need Immigrant Workers?

There are two opposing positions on the American economy's "need" for immigrant workers. Some economists review the 1970s rapid growth in workers and jobs and assert that the United States faces labor shortages in the 1990s, as the percentage of elderly grows, when the participation of women in the work force levels off, and the number of teenagers who enter the labor market shrinks. Other economists assert that labor-saving machinery, the growing use of part-time workers and flexible hours, later retirements, and the shifting of low-wage jobs overseas may lead to a surplus of unskilled workers. The "labor shortage" proponents believe that today's immigrants will be tomorrow's answer to labor shortages; while the "labor surplus" school argues that today's immigrants will add to tomorrow's unemployment problems.

An article of faith for many economists is that a market economy cannot suffer long from shortages because prices and wages change to eliminate them. A shortage, by definition, requires adjustments. Economists expect the responses of businesses and consumers to higher "shortage" prices and wages to yield adjustments. For example, if the price of gasoline rises,

consumers buy smaller cars and take fewer trips, decreasing the demand for gasoline while the higher prices encourage producers to search for more oil and scientists to develop efficient engines and alternative fuels. Similarly, rising wages set in motion forces that will eliminate labor shortages: Investors include labor-saving machines in their plants instead of assuming that workers will be readily available; some employers build overseas or import some labor-intensive components; and firms offer self-service options for cost-conscious consumers. The pace and ease of adjustment will vary from firm to firm and industry to industry, but the expectation is that when businesses believe there will be fewer low cost unskilled workers available in the future, they start to adjust.

It is very difficult to predict in the aggregate how businesses will adjust to more or to fewer workers since the decisions are made by millions of employers and supervisors. Projections of workers and jobs made in 1979 have already been proved false. In 1979, Clark Reynolds projected a labor supply of 106 to 114 million in 1985 and a labor demand of 109 million if economic growth averaged 3 percent.⁴⁰ Real GNP has increased only 2.1 percent annually, but in 1985 the labor supply already is 118 million and labor demand is 108 million. Instead of the predicted shortages of up to 5 million workers, unemployment is at 7.0 percent, with the unemployment rates of operatives and laborers ranging from 11 to 25 percent.

Almost all Americans gained appreciation for how the economy adjusts to changing prices and wages by witnessing the reactions to rising energy and land prices during the 1970s. However, it is one thing to say that the economy *will* adjust, and another to say how it *should* adjust. It is clear that rising wages for unskilled workers will force more adjustments on some firms and businesses than others. For example, labor-intensive businesses such as restaurants, hotels, and other service establishments that employ a high proportion of minimum wage workers may have to raise their prices if there are fewer unskilled workers. Consumers might go to restaurants less often if prices are raised, so volume and profits might

drop. Understandably, many labor intensive businesses do not welcome a decline in the flow of unskilled workers. However, makers of labor saving machinery would see increased demand. Self service establishments would benefit, as would the suppliers of automated banking and shopping machines.

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Should Americans welcome a future with more or fewer immigrant workers? The answer depends on what kind of economy we want — With more immigrants, there will be lower wages and more jobs; fewer immigrants mean higher wages and more machines. These alternative futures involve other non-economic national concerns such as population, environmental quality, and democratic institutions. Whichever future is chosen, many production processes will still be mechanized or disappear in the United States, since other countries will mechanize and Americans will turn to cheaper imported goods. For example, the United States does not *have* to automate its auto factories, but if it does not, Americans will increasingly switch to lower cost Japanese cars produced in automated factories. Some Americans lament the mechanization of farm production, but without it most consumers would buy bread made with mechanically-harvested Canadian or Argentine wheat.

The debate over future labor shortages or surpluses cannot be answered without asking what kinds of adjustments American society can and should make. One approach is to ask if the jobs and businesses created and preserved by the availability of illegal immigrant labor should exist in the American economy. Many observers assume that *all* jobs offered by employers should be filled: Michael Piore says that the jobs taken by foreign workers . . . "are critical to the functioning of an industrial society . . . any wholesale attempt to end the migration is, therefore, likely to be exceedingly disruptive to the operation of society and to the welfare of various interest groups within it."⁴¹

However, many of the jobs filled by immigrants are "artificial" in the sense that they are low in value added and would disappear if wages rose slightly.

The U.S. government has promised full employment for Americans. But admitting immigrant workers is a "privilege" that can be revoked. If the government opens the border gates to create and preserve jobs and businesses, then Americans should ask whether the resulting economic activity is worthwhile, and whether it balances the costs to society as a whole.

Most of the 80 million U.S. homes are cleaned by their occupants. This private housecleaning does not count in statistics as a job, business, or as part of the GNP. Since there are vast numbers of workers in Latin America who would be eager to clean American houses for \$2 an hour or less, the United States could, by opening its gates even more widely, create perhaps 10 million new housecleaning jobs and several hundred thousand new cleaning businesses. The underlying reality — cleaning houses — would be unchanged, but the availability of low-wage immigrant workers would create jobs and businesses that would be counted in economic statistics as a gain. The Americans who used to clean their own homes would have more time available for work or leisure. However, if cleaning wages were to rise to \$4 or \$5 hourly and immigrant cleaners were not available, many Americans would revert to cleaning their own homes. Many Americans might have been better off with the immigrant cleaning help, but the additional immigrant cleaning jobs and businesses, would have been "artificial" in the sense that they would disappear if the immigrant wage subsidy disappeared.

Many of the jobs and businesses currently created and preserved by illegal immigrants share some of this "artificiality" in the sense that they would disappear if illegal workers were not available. Many of the new landscaping and janitorial services would disappear, as would a variety of light manufacturing operations. The disappearance of some sunset enterprises, such as the Northern California poultry processing industry, would be hastened.

Would the economy be hurt by the evaporation of these jobs and

A policy of "importing workers to avoid protection" often fails to head off pressures for further subsidies in the form of tariffs and quotas.

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businesses? The answer is that all inevitable adjustments are costly, but that policies which promote necessary adjustments are in the best interest of the nation. The end of the bracero program in 1964 forced farmers to adjust. Some of those who did not turn to illegals mechanized, while others formed co-ops and developed settled and local work forces. Stopping illegal immigration in the 1980s would also require adjustments.

Evaporating jobs do not necessarily mean disappearing industries or declining output. During the 1930s, there were seven million farmers. Today, one-third as many farmers produce twice as much food and fiber. A business which sheds jobs and adopts productivity-improving technologies is more likely to survive in a dynamic economy than a business which resists labor saving changes in an interdependent world. It has been suggested that the U.S. should continue to import unskilled workers to avoid tariffs, quotas, or other protectionist policies.⁴² This argument recognizes that immigrant workers will for a time work at wages low enough to compete with imports. However, many of the industries clamoring for protection from imports, such as shoes, textiles and apparel, also employ illegal immigrants. A policy of "importing workers to avoid protection" often fails to head off pressures for further subsidies in the form of tariffs and quotas.

The Urgency of Reform

The United States has been debating the need for immigration reform for over a decade. Should Americans care if it takes another 10 years to achieve a consensus? Immigration reform becomes more difficult as time passes. Employers who use illegals and businesses and private organizations that serve them acquire strong vested interests in the status quo.

One way delay makes reform more difficult is that the availability of low-wage immigrant workers becomes a resource that gets capitalized into the values of land and business assets. A prospective farmer values land by

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examining its potential revenues and costs,⁴³ just as a buyer of an established janitorial and landscape service wants to know about revenues and costs. One of the most important costs in such businesses is wages, and low immigrant wages soon get capitalized into the prices of land and business assets. Old and new owners and their banks expect these assets to retain their value. Businesses may forget how much the value of their assets depends on the availability of low-wage labor until the source is threatened.

The longer a business has been dependent on a subsidy such as illegal immigrant labor, the better organized and more determined it becomes to resist changes that might reduce the subsidy, thus raising wage costs and reducing the value of business assets. Southwestern farmland is a prime example. Fifty years ago, the lack of water and labor uncertainties made much of the southwest's farmland almost worthless. However, federal irrigation projects and Mexican farmworkers have made southwestern farmland some of the most valuable in the United States. Owners of irrigated southwestern farms have organized themselves to prevent the loss of subsidies of both water and labor that are viewed after 50 years as their "God given right."

The longer illegal immigration persists, the more low wages will be incorporated into the values of business assets and the longer entrepreneurs will ignore options for less labor-intensive forms of production. Immigration reforms will be resisted by old owners who have come to expect their subsidy, and by new owners who have already paid an extra price for the subsidy when they bought the land or business. These business owners will loudly protest immigration reforms as attempts to "change the rules of the game."

Some of the service establishments, factories, and farms of the most sophisticated economy in the world are dependent on the most remote Mexican or Central American villages for unskilled labor. These dependencies are distorting economic development in both the United States and

Tolerating heavy illegal immigration introduces distortions into the economy that are difficult to remedy, while imposing environmental and social costs that must be borne by the society as a whole.

Mexican economies: the U.S. economy is importing large numbers of workers, along with goods and capital, despite unemployment of about seven percent and idle industrial capacity; Mexico is allowing the export of workers to the United States, thus increasing its dependency on and vulnerability to U.S. policies, while concentrating its own investment on the development of its own capital intensive industries.

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If the immigration status quo persists, the United States will develop a more unequal society with troublesome separations. For example, some projections indicate that the California work force will be mostly immigrants or their descendants by 2010. These working immigrants, mostly nonwhite, will be supporting mostly white pensioners with their payroll contributions. Is American society resilient enough to handle the resulting tensions?

Most of the immigrants will concentrate in or near the urban areas of only five states, with attendant environmental and economic consequences for those areas.

The American economy will have more jobs and businesses if illegal alien workers are allowed to enter freely and work in the United States.⁴⁴ But the number of jobs and businesses alone is not an accurate measure of the soundness of economic development or quality of life. Tolerating heavy illegal immigration introduces distortions into the economy that are difficult to remedy, while imposing environmental and social costs that must be borne by the society as a whole.

1. Ralph H. Taylor, Executive Secretary, Agricultural Legislative Committee of California in Hearings on *Immigration from Countries of the Western Hemisphere*, House Committee on Immigration and Naturalization, 70th Congress, First Session, 1928, p. 307.
2. These statistics are from the *Economic Report of the President: 1985*.
3. These statistics are from the U.S. Departments of Labor and Justice, various publications.
4. Robert Solow, "Technical Change and the Aggregate Production Function," *Review of Economics and Statistics*, August 1957, estimates that 80 percent of the growth between 1909 and 1949 was due to technical progress. Edward Dennison, *Accounting for U.S. Economic Growth 1929-69* (Washington: Brookings Institution, 1974) estimates that almost 50 percent of the growth was due to technical progress.
5. Dennison *op cit* p. 127 estimates that 2/3 of the technical progress was due to advances in knowledge.
6. See R. Dornbusch and S. Fischer, *Macroeconomics* (New York: McGraw-Hill, 1984), pp. 604-606.
7. Lester Thurow, *The Zero-Sum Society* (New York: Basic Books, 1980). Richard Freeman's review of the productivity evidence finds that the negative effects of changes in worker hours and attributes were offset by rising educational levels, and that 73 percent of the slowdown in growth is due to an unexplained slowdown in technical progress. See "The Evolution of the American Labor Market, 1948-80," in M. Feldstein, *The American Economy in Transition* (Chicago: University of Chicago Press, 1980).

8. Donald Huddle estimates that there is a 65 percent displacement ratio, i.e., "for every 100 illegals employed, 65 U.S. workers are displaced or kept out of the job markets." Huddle's estimates are probably too high for the entire economy: most of his examples are from high-wage construction, where jobs do not yet have the stigma of being "immigrants' jobs." See Donald Huddle, Arthur Corwin, and Gordon MacDonald, *Illegal Immigration: Job Displacement and Social Costs* (Alexandria, Va: American Immigration Control Foundation, 1985), p.2.

9. A Houston survey of unemployed American workers who might have been interested in the jobs vacated by the 1982 *Operation Jobs* project emphasizes the "undesirable" traits of such American workers. Of 122 workers who expressed an interest in these vacant jobs, 8 percent had no telephones and were thus hard to contact. The 100 workers interviewed were high school graduates with a mean age of 27 who had earned an average of \$7.06 hourly, had been unemployed 3.3 months, and were willing to work for \$4.84 hourly. Most employers confronted with unemployed workers who had experienced such downward wage mobility would realize that they would quit for better-paying jobs as soon as possible, so these employers often prefer illegal alien workers. See Donald Huddle, "Jobs: Do Illegal Aliens Take Them and Do U.S. Workers Want Them," *The Mexican Forum*, Vol. 5, No. 1, January 1985, p.5.

10. See the contributions by Richert and Massey; Mines; Jones, Harris, and Valdez; Guttierrez; and Dagodag in Richard Jones, ed. *Patterns of Undocumented Migration: Mexico and the U.S.* (Totowa, NJ: Rowan and Allenheld, 1984).

11. One such network is documented in R. Mines and A. deJanvry, "Migration to the U.S. and Mexican Rural Development," *American Journal of Agricultural Economics*, Vol. 64, No. 3, August 1982.

12. M. Miller and P. Martin, *Administering Foreign Worker Programs: Lessons from Europe* (Lexington, MA: Lexington Books, 1981).

13. Suzanne Model, "Ethnic Bonds in the Workplace," Russel Sage Foundation Newsletter, Vol. 6, May 1985 pp. 6-7.

14. Charles Murray, "Welfare: Promoting Poverty or Progress," *Wall Street Journal*, May 15, 1985, p.34.

15. P. Martin, *Seasonal Workers in American Agriculture: Background and Issues* (Washington: National Commission for Employment Policy, 1985).

16. INS enforcement is disruptive and is usually *not* welcomed by employers. However, many employers have adapted to standard enforcement practices so that proposed immigration reforms may have fewer effects than is often assumed. For example, a frequently-voiced employer assertion is that "good workers have good identification," and many employers already request identification before hiring.

Standard enforcement practice is to concentrate limited resources on the largest employers with the most employees. However, larger employers are most likely to hire the most legal workers and the most well-established illegals, since they tend to pay higher wages and offer more fringe benefits. If the INS and the Labor Department rationally concentrate enforcement on larger firms, they:

- apprehend the established illegal; most likely to return to the United States.
- also interview legal workers who complain of discrimination.
- disrupt the larger businesses and generate vocal protests.

Smaller competitors who tend to hire more illegals at even lower wages are investigated less often because enforcement resources are limited. Thus, standard and rational enforcement practices can fragment employers into smaller units that are harder to detect. This fragmentation appears to be occurring in farm labor contracting, janitorial and landscape services, and other urban services.

17. Many illegal aliens are employed only part of the year in the United States, but the tendency of illegals to work more than 40 hours per week (if the hours are available), has been documented in most recent empirical studies, buttressing a 1976 finding of David North and Marion Houstoun, *The Characteristics and Role of Illegal Aliens in the U.S. Labor Market: An Exploratory Study* (Washington: New Transcentury, 1976).

18. J. Nalven and C. Frederickson, *The Employer's View: Is There a Need for a Guestworker Program?* (San Diego: Community Research Associates, 1982), p. 29.

19. Rebecca Morales, "Transitional Labor: Undocumented Workers in the Los Angeles Automobile Industry," *International Migration Review*, Vol. 17, No. 4, p. 582.

20. *Ibid.*, p. 582, Table 4 (legal and illegal immigrant workers). Morales reports that employers paid higher average wages to citizens (\$8.81 hourly) than to immigrants with green cards (\$7.49). Illegals earned the lowest wages (\$4.99), p. 584.

21. Large-scale immigration has historically generated concentrations of foreign workers in certain occupations and industries. Walter Fogel notes that in 1910 "foreign-born workers were especially numerous in a few occupations . . . tailors . . . bakers, mine and apparel operatives, and laborers in manufacturing, transportation, and utilities: . . . Foreign-born workers were found to be 58 percent of all workers in iron and steel manufacturing, 61 percent in meatpacking, 62 percent in bituminous coal mining, and 69 percent in cotton mills." See "Immigrants and the Labor Market: Historical Perspectives and Current Issues" in D. Papademetriou and M. Miller eds. *The Unavoidable Issue: U.S. Immigration Policy in the 1980s* (Philadelphia: ISHI, 1983), p. 73.

22. R. Mines and P. Martin, "Illegal Immigration and the California Citrus Industry," *Industrial Relations*, Vol. 23, No. 1, Winter 1984, pp. 139-149.

23. J. Nalven *op cit*, p. 28.

24. Quoted in *Ibid*, p. 25.

25. Michael Piore, *Birds of Passage: Long-Distance Migrants and Industrial Societies* (New York: Cambridge University Press, 1979), p. 18.

26. Diana Balmori, "Hispanic Immigrants in the Construction Industry: New York City 1960-1982," New York University Occasional Paper 38, 1983.

27. BLS considers 36 of the 977 industries with standard industrial codes to be high-tech because their R and D expenditures and number of technical employees are at least twice the average for all U.S. manufacturing. Such industries include makers of drugs, computers, electronic components, aircraft, and laboratory equipment.

28. Some Democrats endorsed the overseas migration of standard production jobs. Walter Mondale reportedly endorsed Robert Reich's call to recognize that production and jobs "which make routine the solution of older problems are coming to be the special province of developing nations." *The Next American Frontier* (New York: Times Books, 1983).

29. *Business Week*, March 28, 1983, p. 90.

30. The U.S. has 2.5 to 3 million small businesses with 50 or fewer employees, and these small businesses account for most new jobs. However, the U.S. treasury estimates that small businesses underpaid their taxes by \$27 billion in 1985. *Wall Street Journal*, May 20, 1985, p. 13c.

31. John Naisbitt, "Reinventing the American Corporation," *New York Times*, December 23, 1984, 3:2.
32. M. Reder, "The Economic Consequences of Increased Immigration," *Review of Economics and Statistics*, Vol. XLV, No. 3, August 1963, p. 229.
33. In the words of Melvin Reder, "... an increased labor supply would reduce the real wage rate which, in turn, would increase the rate of return on capital (other things equal), leading to an increased rate of investment." Reder *op cit*, p. 222.
34. Indeed, Alan Olmstead notes that in the 1820s and 1830s new farmland was often more productive than established farmland — "it was common for grain farmers moving to the northern midwest to obtain twice the yield per acre than they achieved in their eastern homelands. The key point here is that bringing new land into production not only increased total output, it also resulted in higher output per person." See *Issues in American Economic Growth: Past, Present, and Future*, UCD Agricultural History Center Working Paper 16, 1984, p. 2.
35. Statement by Commissioner Ray Marshall, *Final Report of the Select Commission on Immigration and Refugee Policy*, Washington 1981, Appendix B, p. 365.
36. "Total Jobs Keep Rising Despite Many Layoffs and Talk of Recession," *Wall Street Journal*, March 24, 1980.
37. Quoted in *Business Week*, July 15, 1985, p. 57.
38. Vernon Briggs, *Immigration Policy and the American Labor Force* (Baltimore: John Hopkins University Press, 1984).

39. Immigrant workers lowered the rate of increase in wages — in many instances, nominal wages continued to increase, but inflation-adjusted or real wages declined.

40. Clark Reynolds, "Labor Market Projections for the U.S. and Mexico and their Relevance to Current Migration Controversies," Stanford, 1979.

41. Michael Piore, "Illegal Immigration to the U.S.: Some Observations and Policy Suggestions," in *Illegal Aliens: An Assessment of the Issues* (Washington, D.C.: National Council for Employment Policy, 1976), p. 26.

42. J. N. Bhagwati, "Shifting Comparative Advantage, Protectionist Demands, and Policy Response Options," Paper presented to an NBER Conference May 8-11, 1980.

43. The availability of labor at predetermined wages affected the price of farm land through history. For example, Indians in Guatemala were forced to supply a certain number of workdays to hacienda owners until 1946, and "each piece of cultivated land enjoy(ed) the traditional, if not legal, right to an Indian work force. Indeed, the number of Indians determined the value of certain farms." Miles L. Wortman, *Government and Society in Central America: 1680-1840* (New York: Columbia University Press, 1982), p. 14.

44. The United States may be unwittingly "overbuilding" low-wage industries because immigrant workers are available, much as the U.S. economy got accustomed to cheap energy and was thus vulnerable to the OPEC price hikes. Tax laws and low-wage labor may, for example, lead to overcapacity and persistent profit squeezes in agriculture and hotels.

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